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C O N F I D E N T I A L SECTION 01 OF 02 KUALA LUMPUR 001586

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STATE FOR EAP/FO AMBASSADOR MICHALAK
COMMERCE FOR 4430/MAC/EAP/BAKER
TREASURY FOR OASIA L. MOGHTADER

E.O. 12958: DECL: 08/17/2016
TAGS: [ETRD](#) [EINV](#) [PGOV](#) [MY](#)
SUBJECT: YOUR VISIT TO MALAYSIA

Classified By: Ambassador Christopher J. LaFleur for reason 1.4d.

11. (C) Summary: Prime Minister Abdullah has yet to steer clear of the choppy political waters created by former-Prime Minister Mahathir's continuing attacks on Abdullah and his family. We doubt that these attacks will jeopardize the PM's tenure in office, but they have put the government on the back foot on a variety of issues, including bilateral trade talks with the U.S. Mahathir has cited the FTA, among other issues, in charging that Prime Minister Abdullah is too willing to make concessions to foreign interests. Taking advantage of the Malaysian public's highly emotional response to the conflict in Lebanon, UMNO Youth Deputy Chief Khairy Jamaluddin, the Prime Minister's son-in-law, proposed suspending FTA negotiations to protest U.S. Middle East policy (an idea the Prime Minister quickly nixed). We are confident the GOM continues to support the FTA talks, but the attacks have made it harder for the government to voice its support strongly at this moment in time. Your visit provides an opportunity to sound out current Malaysian thinking and to create a more positive atmosphere for the critical Cabinet discussion of the FTA that will take place a few weeks from now. End Summary.

Domestic Politics: Mahathir on the Offensive

12. (C) After two mostly quiet years out of power, former-Prime Minister Mahathir has launched a series of attacks on Prime Minister Abdullah, who was his choice as his successor. There is much speculation about the real motives behind Mahathir's outbursts, but significant themes in his statements are that Abdullah is failing to carry forward Mahathir's development strategy and is too willing to concede ground to foreign interests. Mahathir has criticized a number of Abdullah's foreign policy moves, including his decision to break off talks on a new bridge to Singapore, the conclusion of the Economic Cooperation Agreement (ECA) with Japan, and the decision to launch bilateral FTA negotiations with us. For example, in March, near the beginning of his campaign of criticism, Mahathir said, "I worry that the FTA with the U.S. may have an adverse effect on us." Referring to the government procurement preference programs for Malays, he added, "if we lose that, we would not be able to correct it later."

13. (C) Mahathir's salvos have failed to mortally wound the Prime Minister and we do not expect any sudden leadership shifts. The continuing attacks have nevertheless attracted intense public attention and put the Prime Minister on the

defensive. The GOM has been forced to play catch up with the former PM's innuendos regarding GOM handling of the Singapore bridge construction project and the possible financial and business speculations of his family members. Senior government figures have rallied around the Prime Minister, defended his policies, and suggested in varying ways that Mahathir should cease public criticism of the government. The former PM has stayed on the attack, however, and insiders lament the political pall this has cast on the PM's ability to implement policy.

Foreign Affairs: Lebanon Gets Thrown Into the Mix

14. (C) Further complicating matters, UMNO Youth Deputy Chief Khairy Jamaluddin, the PM's son-in-law, seized on the Lebanon crisis to burnish his image as a Malay nationalist. The conflict in Lebanon has resonated very negatively among Muslim Malays, who account for roughly 55 percent of the population and form the dominant political group. Khairy led public protests at the end of July, including one aimed at the visit of Secretary Rice, and called for suspension of the FTA negotiations and boycotts of U.S. firms. PM Abdullah was quick to rebuff these calls and Khairy has backpedaled from his more offensive positions. And, indeed, the calls for a boycott appear to have fallen on deaf ears. While we doubt that the Lebanon crisis itself will have a lasting negative effect on GOM support for the FTA talks, Khairy's opportunistic attacks underscore the degree to which the negotiation may be vulnerable to the vagaries of Malaysian domestic politics.

Effect on the FTA Talks

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15. (C) As a result, the field of public opinion has largely been left free to anti-globalization NGOs and other parties critical of the FTA. We continue to believe, as do other FTA supporters, such as the AmCham, that such groups remain very much a minority force in Malaysia. MITI Minister Rafidah said as much herself in an August 16 statement on the FTA: "It is the industry players that matter, not the critics who are on the sidelines. Why complain when players that matter welcome it and say the FTA is the best thing for them?" But Rafidah also has resorted to posturing to preserve her public credibility, for example by repeatedly asserting that the preference system for ethnic Malays will be protected in any agreement. She even has maintained that Malaysia will not be bound by the U.S. TPA timetable in the negotiations, although she surely knows better.

Opportunities During Your Visit

16. (C) On the whole, we believe the political turmoil has not affected the government's basic positions on the negotiations. Malaysian officials assure us that preparations continue for a Cabinet decision later this month or early next month that would provide a mandate to address key issues identified in the first two rounds. However, even with tempers cooling in the wake of the UNSC resolution on Lebanon, the current public atmosphere is not ideal for what will be a pivotal Cabinet debate on the FTA. Your visit provides an opportunity for you to gauge the Cabinet's thinking on the FTA talks and to discuss with Rafidah and other supportive players on the Malaysian side what we can do to strengthen public support. As for outreach, much remains to be done to educate the Malaysian public, and you will have opportunities to carry the ball forward in this regard. However, we believe that at this juncture it may be best to moderate our message, note that talks are progressing, and

that we are continuing to work toward an agreement that will
benefit both the American and the Malaysian peoples.
LAFLEUR